Co-operative Energy Ltd

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9 April 1997

Attention: Miguel Wood
NGRS Review Secretariat
Environment Protection Authority (Victoria)
GPO Box 4395 QQ
Melbourne
Victoria 3000

Dear Mr Wood,

Co-operative Energy Ltd is pleased to enclose its submission to the Discussion Paper Future Directions For Australia's National Greenhouse Strategy.

In brief, Greenhouse and Co-operatives argues that there is a need for a central focus on the potential role of co-operatives in involving small consumers and that an inherent weakness of the paper has been inadvertently identified by the Chair of the Intergovernmental Committee on Ecologically Sustainable Development, in a Foreword comment that "the principles and proposed measures presented in the Discussion Paper are put forward by officials."

It is reassuring, therefore, that the Chair has also commented that the proposed objectives and measures "are subject to further review." It is hoped, therefore, that this further review will provide a more systematic analysis of small consumers and the potential for co-operatives.

Yours in co-operation,

David Griffiths
Secretary

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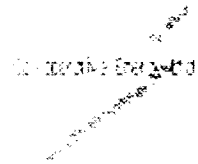
Greenhouse and Co-operatives



On the 28 February 1997 Australia's Intergovernmental Committee on Ecologically Sustainable Development released its discussion paper, Future Directions for Australia's National Greenhouse Strategy.

The purpose of the discussion paper is described in an accompanying media release of 28 February 1997 as being "to stimulate discussion on how governments, industry and the broader community can work together to increase efforts to address the problem of climate change resulting from the enhanced greenhouse effect."

What is particularly disappointing about the discussion paper is its avoidance of context and specification - the context for energy and environmental policies and practices and the conditions of and responses to these policies and practices. This is illustrated by the discussion paper's treatment of renewable energy. It is a "theoretical" rather than a "practical" discussion which avoids Australian and overseas experience in the development of renewable energy options by utilities and consumers and the lessons for the subsequent development of renewable energy.

The discussion paper does not examine the impact of organisational philosophy and form on the reduction of greenhouse and the involvement of consumers.

In responding to the discussion paper, Co-operative Energy Ltd will comment on the following:

- **Competition Policy**
- **Distributed Generation**
- **Financial Barriers**
- **Independent Energy Information**
- **Partnerships for Greenhouse Action**
- **Renewable Energy**

Competition Policy

It is noted:"Ongoing micro-economic and competition policy reforms have the potential to further improve the economic efficiency of the energy sector, thereby reducing costs and improving the competitiveness of Australian industry." (p 42) But, then, it is also conceded: "However, it also is important to ensure that these reforms lead to emission reductions by encouraging use of more 'greenhouse-friendly' energy sources and improvements in energy efficiency in production, distribution and use." (p 42)

Critical to this analysis, therefore, is how this objective is achieved. It is proposed in the discussion paper that this objective will be assisted by:

- promoting a pricing regime which better reflects costs of supply (including economic, environmental and social costs) and ensures locational benefits are accounted for, with transparent treatment of community service obligations;
- ensuring fair treatment of all energy services in all market arrangements;
- developing Australia's capacity to introduce low emission energy sources wherever cost-competitive.

This is a simplistic set of assumptions. It does not obviously follow that these conditions will encourage renewable energy and energy efficiency. Indeed, energy efficiency could reduce load and income for utilities whose ownership is investor-driven. Investor owned utilities in the USA have pursued energy efficiency but this has been encouraged by utility commissions allowing a rate-of-return on investments in Demand Side Management (DSM). Consumers may choose renewable energy and energy efficiency but this will depend on the transaction costs involved for individual consumers. Utilities may promote renewable energy but this will depend on the rate of return from which consumers. Furthermore, we need to be wary of any "green power" interest by utilities at this point of time in an inmature market where utilities are experimenting in their pursuit of market share.

Legislators and regulators are primarily relying on market forces in the restructured energy industry to educate, inform and organise consumers. It is assumed, for example, that providers competing for consumers will be competitive in the provision of education and information. This is a dubious possibility with investor owned utilities but it is a realistic possibility through co-operatives - as purchasers of electricity for themselves and their members.

Distributed Generation

Distributed generation is critically important to renewable energy and energy efficiency. A Roundtable organised by the California Energy Commission on 25-26 April 1996 defined distributed generation "as a plant of 20 megawatts or less sited in or close to a load center or at a customer's site and produces electricity at distribution system voltage. Four technologies considered particularly well-suited to distributed generation are: combustion turbines, reciprocating engines, fuel cells and photovoltaics."

Distributed generation would lower electricity costs for remote areas. Power is lost during conventional transmission and distribution and this increases with distance. The logic of this power loss is the ultimate introduction of distance-based pricing - the further consumers are from the transmission and distribution the higher the price paid for the electricity.

Because distributed generation is located near load centres, this minimises power losses and reduces the cost of delivering power to these consumers. Distributed generation technologies also typically have lower air emissions than conventional power plants. The discussion paper, however, does acknowledge the role of stand-alone power systems and suggests encouraging electricity suppliers to:

- investigate the use of stand-alone power systems and demand management options prior to expanding or increasing the capacity of their distribution system
- provide and promote small-scale alternate energy systems for supply to customer loads remote from electricity supply networks
- consider the gradual replacement of uneconomic power lines with stand-alone power systems. (p 44)

Co-generation is also acknowledged when it is noted: "there is a need to promote the economic and greenhouse gas abatement benefits of small-scale cogeneration." (p 45)

Stand-alone power systems and small-scale cogeneration are examples of distributed generation. Distributed generation, however, is a broader concept and it is disappointing that

the discussion paper does not acknowledge the value of distributed generation.

Financial Barriers

The discussion paper acknowledges the need to overcome financial barriers to increased market penetration of newly commercialised technologies and services. It is suggested that Governments pursue this outcome through mechanisms such as:

- rebates for installation of energy-efficient or renewable energy technologies, appliances and equipment
- bidding programs in which customers competitively bid for funding to help offset the cost of implementing energy efficiency and renewable energy projects, selected in order of cost-effectiveness
- shared savings schemes where loan funding for energy savings is repaid progressively out of the financial savings achieved
- credit schemes to provide funds to end-users for the purchase of particular appliances and equipment
- an energy planning incentives program to provide funding to assist business to develop comprehensive three to five year energy plans. (p 48)

The discussion on the mechanisms ignores the socio-economic status of consumers and the impact this has on their capacity to subsequently absorb "rebates", engage in "bidding programs" and secure "loan funding."

Independent Energy Information

Under Energy Use and Supply Objective 3 is stated as: Increase the efficiency of energy use and the adoption of behaviour, practices, technology and fuels which abate greenhouse gas emissions. (p49) Two measures are propoosed:
Australian Energy Information Service
Energy Data and Analysis Centres

It is argued: "The availability of information for energy consumers is a precondition for the operation of an effective national energy market. Intensified competition in domestic energy markets requires effective delivery of independent and credible information and advice on available energy technologies, end-use efficiency, emissions and related issues." (p 42)

A report prepared by the Tellus Institute and the Wisconsin Energy Conservation Corp on electric industry restructuring in the USA has discussed the experience of deregulation in the natural gas and long-distance telecommunications markets. They concluded that the potential barriers to small consumer choice are perceived to be the lack of value and credible information.

The lack of credible information has been an issue in the USA state of New Hampshire for its retail competition pilot program. The pilot program began in May 1996 and has involved 17,000 residential, commercial and industrial consumers.A survey report of 400 participants in the pilot program, prepared for the New Hampshire Public Utilities Commission, reported in February 1997 that one-third of respondents said that at least some of the advertising by providers was unfair or deceptive. Of about 15 suppliers marketing to residential consumers, one-third appealed to environmental values. What providers did not disclose to consumers were their energy resources and certification of their green power claims.

Partnerships for Greenhouse Action

The discussion paper argues that "partnership with the broader community will also be an essential requirement for the success of the 1997 National Greenhouse Strategy." (p 77)

It is stated: "For example, measures such as recycling, better housing insulation, the uptake of action based on information and education programs and incentive/rebate schemes all rely on a positive response from the community at large." (p 77)

Subsequently, the discussion paper suggests that it is important to clearly define community: "The term often is interpreted as applying simply to the household sector. However, for the purposes of the national greenhouse strategy, the 'community' must be recognised as encompassing the whole community - individuals, business and industry, farmers, all spheres of government, professional associations and educational institutions etc." (p 81)

The discussion paper's definition of community is so broad that it becomes meaningless. While it is accurate to define the community broadly, it is equally important to acknowledge that large consumers have more choices than small consumers because of their greater purchasing power. Energy efficiency options, for example, will be more readily available to industrial and commercial consumers than small consumers because of differences in possible cost savings for buyers and, therefore, profits for sellers. It is equally important to involve the whole community and not evade this obligation when some members of the "community" are involved and, therefore, assume that the object of "community" involvement is achieved. The broad definition allows for renewable energy options to be a choice based on affordability i.e. an option for all consumers if they have a capacity to pay.

Co-operative Energy Ltd believes that the key to the development of commitment and action on greenhouse is individuals and their communities - rather than Government. Too much reliance should not be placed on changing Governments and their policies. Yet, the expectation remains that it is an issue for Government to identify and resolve. In general, the discussion paper tends to reflect and reinforce this dependence on Government - reflecting and reinforcing the bias of the authors.

Renewable Energy

It is in the public interest to promote renewable energy because of its capacity to minimise and prevent energy-related air emissions. The discussion paper acknowledges the potential for renewable energy without a significant systematic analysis of air pollution and its impact on human health. This would require a detailed analysis of the relationship between energy and environmental goals and policies. It would also require a commitment to the development of renewable energy that was not simplistically based on affordability.

Utilities in Australia and the USA have taken the initiative in facilitating renewable energy and it is puzzling why the discussion paper does not acknowledge this experience and used it as a basis for its own analysis and recommendations.

CitiPower in Victoria is selling EcoUnits. Funds from the EcoUnits are used to cover the difference in cost between conventionally generated electricity and renewable energy such as

solar, hydro and wind power. CitiPower is already generating some renewable energy from an Energy Park in Brunswick - originally established by the Brunswick Municipal Utility before it was absorbed within CitiPower. NSWs Energy Australia is selling Pure Energy to consumers - a premium tariff to support renewable energy. Indeed, the New South Wales Government is promoting "green power" and accrediting providers.

In the USA APS is Arizona's largest electric utility with 720,000 consumers. On 25 March 1997 Business Wire reported (APS creates partnership to help consumers clean up Valley's air and APS environmental benefits really do add up) that APS with Home Depot and Black & Decker had created the Partners for Clean Air Program - offering a $US75 rebate on the purchase of a Black & Decker electric and cordless rechargeable lawn mowers. It is hoped that 2000 electric mowers will replace petrol mowers - reducing 132,600 pounds of carbon monoxide and more than 11,000 pounds of total organic gases over a 12 month period.

The discussion paper tends to focus on the role of "developers" and "industry" in developing renewable energy. It is proposed, for example, that a Renewable Energy TaskForce "report directly to governments on the strategic development of renewable energy industries in Australia." It is equally important to focus on communities and areas where renewable energy could assist in the ultimate provision of accessible and affordable power. Consistent with this is another suggestion in the discussion paper of the need to review energy markets "to identify and address structural, market, legislative and regulatory barriers to sustainable energy supply and demand-side options." (p 46)

The Co-operative Option

This submission has been critical of the discussion paper for not appreciating how opportunities for small consumers in the electricity market will not automatically create benefits. The discussion paper is vague on the importance of small consumers for it lacks a strategic analysis of the small consumer in the electricity market.

The discussion paper urges community groups to not only respond to its proposals but also "consider how they might contribute directly to Australia's greenhouse response" and "bring forward proposals regarding their role in the implementation of greenhouse responses." (p 9) This is an important invitation because it invites active participation in change - rather than being passive recipients. The challenge, then, is what structures and processes would enable individuals and their communities to be active participants.

The key to choice for small consumers is individuals and their communities acknowledging the possibility of co-operation. The co-operative option is the most appropriate for small consumers because it is democratic, voluntary and bipartisan. Co-operatives involve consumers and producers voluntarily coming together to promote their socio-economic well-being based on the principles of co-operation as expressed by the International Co-operative Alliance - voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education training and information, co-operation among co-operatives and concern for community.

Electric co-operatives have been established in over 50 countries throughout the world. There are 934 electric co-operatives in the USA serving 30 million people. Three electric co-operatives have been established in Victoria - Co-operative Energy Ltd, Orbost Power Co-operative Ltd and Southern Energy Co-operative Ltd. Co-operative Energy Ltd has joined with the Co-operative Federation of Victoria Ltd to establish an Electric Industry Co-operative

TaskForce to explore the options for co-operative involvement in the restructured electric industry. In New South Wales co-operatives are also examining the possibilities for their involvement. This co-operative interest is critically important for small consumers for it will provide the opportunity to realise the benefits of industry restructuring. If the Intergovernmental Committee on Ecologically Sustainable Development is serious about greenhouse and the small consumer, then, it cannot avoid the significance of the co-operative option.

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